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A State Regulator's Views on Interstate Banking

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Within the past few months the Massachusetts banking community has been trying to come to grips with the imminent arrival of interstate banking. At the same time, it would be difficult to scan a recent trade periodical without finding an article on the subject and it seems that every association of bankers has conducted at least one seminar devoted to the issue. This flurry of activity could lead a casual observer to believe that the entire banking fraternity desperately wants interstate banking. Surprisingly, this is not the case. As recently as April 1981 bank executives around the country were polled for their views on interstate banking. Fully 84% decisively rejected the concept, while a mere 1% supported it[1]. Yet, today, we find that a handful of states, including Massachusetts, has already enacted authorizing laws and that another handful is working toward enactment.

How did such an important change come about so quickly and what are the implications for a state banking regulator? As a background, American banking is unique because it was developed and continues to be carried on by a large number of independent banks. This contrasts with banking in Canada and most European countries, where the business became concentrated in the hands of a very few large banks at an early stage in history.

It should also be noted that state and federal laws have traditionally prohibited or severely restricted branch banking. This limitation, in part, stemmed from a concern for the safety and soundness of the banking industry. Legislatures felt that unlimited entry of new banks or branches of existing banks into certain markets within a state would create such overbanked conditions that profitable operations would be unattainable by anyone. Thus, many states, including Massachusetts, erected barriers against entry.

Massachusetts limits branching to one country, or 40 miles from the location of the main office. However, state law provides for the establishment of multibank companies, an organizational structure that can circumvent geographic barriers against bank expansion. Within the past ten years a number of bank holding companies have used this "end run" capability to such advantage that today we see a quasi-statewide branch system.

Traditional geographic barriers have also been shattered by the enactment of a state law that permits statewide electronic funds transactions. One network alone accounts for over 300 automatic teller machines statewide, bearing a presence in every banking market.

Legal incongruity is not limited to intrastate banking. Within the past few years we have seen a proliferation of de facto examples of interstate banking including the following:

- interstate bank holding companies that operated before enactment of the Bank Holding Company Act of 1956, and that were fully grandfathered as a result of that act;
- branches of foreign banks;
- Edge Act subsidiaries;
- loan production offices;

- nonbank subsidiaries of bank holding companies, such as mortgage companies, finance companies, and computer service companies;
- bank credit card transactions,
- electronic funds transactions;
- an increasing number of regulator controlled interstate mergers of failing savings and loans.

While these examples illustrate the futility of maintaining artificial barriers based upon geography, we are simultaneously seeing a continual blurring of the lines of distinction between financial institutions. Within the past year the hard-pressed thrift industry has sought and received expanded powers to offer the broad range of services formerly reserved for commercial banks. Similarly, we are witnessing a homogenization of financial services from the affiliation of securities and insurance firms with banks. Recent intentions of nonbanking firms to acquire banks and to divest either the demand deposit or commercial lending operation to escape federal regulation have caused some concern among the Board of Governors of the Federal Reserve System. Chairman Volker called upon Congress to address both the erosion of the Fed's control over banking holding companies, and enactment by the states of broad new banking powers that circumvent federal statutes.

To complicate matters, Sears, Roebuck & Company is planning to open 600 in-store financial centers across the nation by the end of 1986. The fifteen centers already in operation offer such services as insurance, securities, savings accounts, and loans. That these centers have opened 175,000 IRA accounts thus far this year gives some hint of the competition that this marketing giant will offer to conventional banks.

The rapid pace of these and similar innovations has already changed the structure of financial service delivery. And ready or not, market discipline is threatening to replace the traditional controls of government regulation. Which brings us to the second part of the question that I posed earlier in this article. What are the implications for a state banking regulator?

First of all it must be noted that strict regulation of banking has resulted from a series of banking disasters dating from the early 1800s. The impact of each disaster brought increased calls from the public for additional regulation, but always at the cost of relying upon the discipline created from an open and free market. Today, regulators face increasingly strident demands from proponents of both sides. Those who favor strict government control over all aspects of banking appear to be losing ground to those who advocate free market discipline. However, there really is no clear-cut major shift to either camp despite all the talk and maneuvering concerning general deregulation. All of the signals are mixed and admittedly confusing. On one hand, the thrift banks have sought and received vastly expanded powers to offer services to the public that were previously forbidden, including the ability to pay market rates on deposits; on the other hand, regulators have received fresh mandates to establish new controls over the same banks.

The formal arrival of interstate banking is expected to provide a continuation of mixed signals for regulators. Certainly the state line will no longer constitute a legal barrier for banks, but for that matter it won't stop the regulators either. A quick glance at Massachusetts' recently enacted interstate banking law will clearly show that banks have the power to expand geographically, *but under regulation*.

Specific provisions of the law show a regional bias in that only financial institutions of the other New England states may enter Massachusetts. A reciprocity provision calls for the home state banking laws of a prospective entrant to be no more restrictive with respect to interstate banking than the Massachusetts statute. Generally, an out-of-state banking association or corporation seeking entrance into the Massachusetts market must obtain a certificate from the Board of Bank Incorporation and subject itself to the supervision of the Commissioner of Banks.

The law provides a variety of methods for entering the market. De novo branches or depots may be opened, or an out-of-state institution may acquire an existing Massachusetts bank. If the acquisition route is taken, the acquired Massachusetts bank may remain structurally independent, or its balance sheet may be closed into the books of the acquiring bank. In this connection, any out-of-state entity that acquired a Massachusetts bank will be exempt from examination and certain other regulatory activities of the Commissioner of Banks in spite of the previously stated general requirement that such entrants shall be subject to the supervision of the Commissioner. Regardless of this apparent inconsistency, regulation will not exactly disappear or even appreciably diminish.

The regulation of interstate banking, although presently clouded up with uncertainty related to the pecking order of various federal and state banking authorities, should pose no long term problem. I fully expect to see the various agencies establish joint regulation over financial institutions in which there is a commonality of regulatory interest. Essentially, the various agencies will have to approach the jurisdictional issues with a certain amount of open-minded flexibility. This will not create a totally new learning experience for the Massachusetts Banking Department, because it already has established a considerable amount of practice in dealing with other agencies.

For example, we have been conducting joint examinations of state-chartered banks with examiners of the FDIC and Federal Reserve Bank of Boston for the past half century. Within the past ten years we have shared examinations of bank holding companies and computer service companies with as many as five different federal bank regulatory agencies. Similarly, our examiners have conducted joint examination/audits of thrift institutions

with various public accounting firms. In recent years, uniform examination standards and procedures have made shared examinations more effective. To enhance standardization, federal and state agencies have developed a number of shared training courses and examination manuals for their field personnel. A recent example of interagency cooperation occurred when the Massachusetts Banking Department initiated and administered a two-week training course for EDP examiners. The FDIC provided the teaching staff and instructional materials for the students, who came from banking departments from all the New England states.

Obviously, each regulatory authority does not have identical laws to enforce. Each agency administers the mandates of its appointing authority, be it federal or state. Despite this, the vast majority of banking laws enforced by field examiners are so similar that interagency operations are now common. Experience has also shown that perhaps 80% of examination man-hours are spent in appraising the financial status of the banks. The consideration of the so-called "safety and soundness" factors weighs heavily on the minds of all examiners, particularly during times of widespread bank failure.

Ironically, the expansion of new laws and regulations is occurring at the same time that we are hearing calls for reduced government expenditures. Tight budgetary constraints of the past few years have forced the Massachusetts Banking Department to eliminate sixty-five positions from an authorized strength of two hundred forty-four. This includes fifty examiner positions, or one-third of the field examination force. At the same time, federal bank agencies are also cutting back their field forces.

While conflicting signals of expanded responsibilities and reduced funding appear to be irreconcilable, we are starting to benefit from recent technological advances that are providing new ways to regulate banks effectively but at lower costs. Based upon the periodically submitted call reports of banks, computer surveillance techniques have enabled us to monitor individual bank performance levels and trends with increasing confidence. Within the past year we have been able to rank each of the approximately six hundred state chartered financial institutions in such areas as capital adequacy, asset quality, earnings performance, and liquidity.

The state law had historically required a detailed examination of every bank annually, regardless of a given bank's performance. This justified a large force of field examiners, especially to compensate for an industry that was averse to maintaining internal audit staffs or contracting for public audits. Today, banks typically have both audit capabilities, thereby reducing the need for detailed, time consuming audits by public bank examiners. In recognition of this change the General Court changed the law in 1982, so that future examinations may be conducted every two years.

While perhaps not as dramatic or dynamic as those influencing the banking industry, the changes affecting the regulatory environment are being taken to serve a continuing public need. A bank spokesman recently stated that there have been more banking laws passed within the past five years than have been enacted during the previous hundred years. I don't know if this is accurate or not, but I do know that this feeling is commonly shared by those who are intimately involved with banking. The hectic pace of legal change will have to continue in order that many thorny unresolved issues can be addressed. One may reasonably expect Congress to take action on such controversial subjects as the McFadden Act, the statutory prohibition on the mixing of banking and commerce, and the legal definition of a bank. Obviously, it would be rash to predict the final form that new banking laws may take, but I feel certain that they will contain fresh mandates for some form of regulatory enforcement.

Footnotes

[1] Victor J. Fischer, Anna Maria Nunez, and James Stallons, "The Interstate Banking Issue in Perspective," A study of the attitudes of the American Banking Industry conducted for the Conference of State Bank Examiners, April 1981, p. 10.

[2] Despite the recent spate of articles about Massachusetts' recently enacted interstate banking law, most observers apparently have overlooked that the state had previously allowed an out-of-state bank to open a branch in downtown Boston. Public Document No. 8, Commonwealth of Massachusetts, Annual Report of the Commissioner of Banks for the Year 1939, Part II stated that, "On November 25, 1939, the Board of Bank Incorporation authorized Brown Brothers, Harriman & Co., whose principal place of business is in New York, to transact business in this Commonwealth under the provisions of General Laws, Chapter 167, Sections 37 to 45, inclusive, thus placing their Massachusetts business under the supervision of this department." The records of the Banking Department indicate that the branch has been examined on thirty-six occasions by Massachusetts examiners since 1940.

The Current Status of Interstate Banking in New England

Maine This state has a nationwide reciprocal merger/acquisition law on the books. The first acquisition under this law was consummated on June 1, when an Albany, New York bank holding company took over a Portland, Maine bank holding company. The Maine company reportedly controls 14.7% of all deposits held by commercial banks in Maine.

Massachusetts The state enacted a broad regional/reciprocal banking law in December 1982. The law provides for interstate mergers and acquisitions of banks and bank holding companies and reciprocal interstate branching with the five other New England states.

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Rhode Island The legislature recently passed a limited regional reciprocal interstate banking law which will not go into effect until July 1, 1984. The regional limitation will expire after two years at which time the law will take effect nationwide. The law does not allow interstate branching into Rhode Island, nor does it allow for entrance of automatic teller machines.

New Hampshire The state senate had recently passed a nationwide reciprocal interstate banking bill. However, on May 17, 1983, the House effectively killed all chances of enactment during this session by referring the bill to interim study.

Connecticut The state adopted a comprehensive regional/reciprocal interstate banking law on June 8, 1983. Thrifts as well as banks are allowed to buy, merge with, or be bought by other New England financial institutions. The law went into effect immediately and within four days the Boston-based Bank of New England Corp. agreed to merge with the Hartford-based CBT Corp.

Vermont The legislature will not seriously consider any interstate banking legislation this year. However, it is expected to address the issue in 1984.

Some Notes on Business Failures

Louis Wigdor
Editor
Massachusetts Business & Economic Report

Business downturns are customarily characterized by a variety of trends: higher interest rates and unemployment, and declining industrial production and capacity utilization to name a few. Among the indicators that reflect business difficulties, none has proved more alarming for small businesses than the dramatic rise in business failures. According to figures from Dun & Bradstreet[1], business failures more than doubled from 11,432 in the recession year of 1975 to 24,898 in 1982. At this writing, the current monthly figure (2,292 failures in May of 1983) indicates a continuation of the upward course.

What are the causes of this troubling phenomenon? In a recently published study New York University professor Edward Altman[2] attributed the trend to the sustained malaise of the economy since 1980 combined with the deterioration in firm liquidity and dramatically reduced coverage of financial payments of interest and principal. Altman observed that liquid assets as a percentage of current liabilities decreased from a high of approximately 30% in 1976 to just above 20% in 1982. Moreover, net interest payments as a percentage of income for nonfinancial corporations increased from about 20 cents for every dollar of income in 1978 to over 40 cents per dollar in 1982. With interest payments constituting 40 cents of every dollar, it's no surprise that so many ailing firms have gone under. Altman also noted that the real rate of interest (the nominal rate minus the inflation rate) was close to zero from 1976 through 1978, but is perhaps as high as 10 to 15% today.

"Financing, especially for small businesses, is indeed tight," observes Joseph Finnerty, professor of General Business and Finance at the University of Massachusetts School of Management, "but most businesses usually fail because of managerial problems. The small business owner often tries to do everything himself, even though he may be inexperienced or his skills too narrowly specialized. Errors in the early stages of a business can force it into a disastrous borrowing spiral."

Sharing these views as John Ciccarelli, director of the Small Business Development Center at the University of Massachusetts School of Management. "One of the Center's services," he notes, "is to provide education and training to entrepreneurs who might otherwise make inappropriate decisions. For example, many small business owners benefit greatly from counseling on inventory and production control. They learn when and when not to build up their inventories and how to cost resources throughout the stages of production. When a business owner accurately anticipates his costs, he is less likely to squander scarce resources and incur unnecessary debts."

Ciccarelli also attributes the rise in business failures to the recent record numbers of business start-ups. "During the modest recovery following the 1975 recession," he observes, "the number of business start-ups soared to record numbers, peaking in 1978-1979. Data indicate that business failures most frequently occur from a firm's third to fifth years. Thus, the recent rise in failures is right on schedule."

In addition to economic and managerial variables, legal and sociological factors influence the rate of business failures. The Bankruptcy Reform Act of 1978 has created more liberal allowances in personal bankruptcy filings. And the public appears to view business failures with increasing tolerance. George Spiro, Associate Dean of the University of Massachusetts School of Management, thinks that public attitudes have changed markedly. "Fifteen years ago," he asserts, "filing for bankruptcy carried a disastrous social stigma. Today, our attitudes toward failure are more open-minded. We may attribute failure as much or more to forces beyond the individual's control — soaring interest rates or government regulation — as we do to personal shortcomings."

[1]Dun & Bradstreet publishes its annual *Failure Record*, and its *News from D&B Monthly Failures*.
[2]Edward I. Altman, *Corporate Financial Distress*, 1983 New York: John Wiley & Sons.

The July 1983 Massachusetts Economic Policy Analysis (MEPA) Short-term Economic Forecast

by Roy Williams and Margaret Larson *

The vigor of the national economic recovery is not fully matched by Massachusetts' performance according to industrial employment data available at the time that this forecast was produced in July. Data for April and May showed many sectors still declining or remaining at their minimum recession levels. The combination of a more optimistic national forecast (CONTROL, 06/27/83) from Data Resources, Incorporated (DRI), and evidence of a lagging recovery in the state leads to a forecast for Massachusetts only very little improved from that of April in terms of the primary indicators of employment, wages, prices, and incomes. Since Massachusetts suffered a less severe recession than the rest of the nation, we continue to expect a less pronounced recovery here in Massachusetts.

Recent data from the Current Population Survey present the brightest picture of recovery, but they are based on a very small sample (about 1500 households in Massachusetts). Strong growth in total employment in the second quarter of 1983 contrasts strikingly with a small drop in total nonagricultural employment estimated from industry data. The marked improvement in the unemployment rate since our last forecast may be due in part to unemployed people who give up searching for a job and hence become classified as nonparticipants in the labor force. Ironically, the psychological effect of this sharp drop in the official unemployment rate may be to encourage other discouraged workers to rejoin the ranks of the unemployed by actively seeking work. The extraordinary figures for the month of July, released since our forecast was completed, cannot be expected to continue, as the labor force participation rate resumes its long-run gradual increase both here and in the rest of the nation.

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Support from the Department of Public Welfare, the Division of Employment Security, the Department of Commerce and Development, the Metropolitan District Commission, Massport, and the Massachusetts Development Research Institute. National inputs from CONTROL 062783 from Data Resources, Inc.

Inflation in consumer prices is expected to average 4.3% for 1983, rising slightly in each of the two following years, approximately in line with national prices. The inflation outlook is somewhat better than in our previous forecast, although this is primarily due to improvements in the national inflation forecast. Average wages will increase 6% in 1983, slightly faster than price inflation. Although average wages and salaries per worker will not keep pace with price inflation after 1983, the recovery and the federal income tax cuts will lead to significant increases in real disposable incomes on a per person basis through 1985. Wages in Massachusetts will increase slightly faster than wages in the U.S., but real per capita incomes here will increase more slowly than in the U.S.

The overall cost of doing business in Massachusetts relative to the cost elsewhere is expected to increase slightly over the next two years, making Massachusetts a relatively less desirable location for conducting business. This factor is crucial to industries which serve national markets, yet even some businesses which serve local markets could be affected by more cost-competitive imports. We continue to expect declining shares of U.S. total employment in most Massachusetts industries. Many of the state's relatively large high-tech industries, particularly SIC 357 (Office & Computing Machinery) and SIC 367 (Electronic Components), are forecast to grow significantly, especially in the short-term, yet U.S. growth in these industries is expected to be faster than in Massachusetts. Thus, even in these industries Massachusetts employment is expected to represent a slightly declining share of total national employment. Only a few industries in Massachusetts are forecast to gain in share, most notably SIC 382 (Measurement & Control Instruments).

The mix of Massachusetts industries which served well in postponing the onset of the recession here and in minimizing its depth, now may cause the recovery to lag behind that of the consumer goods-producing and sunbelt states that were most heavily impacted by the national recession.

July Control Forecast

Summary Report
Massachusetts Economic Policy Analysis Model
(Units as Indicated)

	1982	1983	1984	1983:2	1983:3	1983:4	1984:1	1984:2
Employment — Total Nonag.*	2622	2629	2702	2606	2635	2659	2679	2696
% Change	-1.7	.2	2.8	-1.3	4.6	3.7	3.1	2.4
Manufacturing*	637	616	632	611	618	624	629	631
% Change	-4.9	-3.3	2.6	1.5	4.2	4.5	3.2	1.1
Non-Manufacturing*	1985	2013	2071	1994	2018	2035	2050	2064
% Change	-.7	1.4	2.9	-2.1	4.8	3.4	3.0	2.8
Unemployment Rate	7.9	7.3	6.6	6.8	7.5	7.1	6.8	6.7
Employment Rate Index**	103.0	102.4	104.6	101.6	102.6	103.4	103.9	104.4
% Change	-2.5	-.5	2.1	-2.0	3.9	2.9	2.3	1.8
Relative to U.S. Index**	103.1	103.4	103.1	102.9	103.3	103.4	103.3	103.2
Rate of Wage Change	7.8	6.0	4.3	4.5	4.5	4.8	3.6	4.6
Wage Index Rel. to U.S.**	93.5	94.5	94.8	94.5	94.5	94.7	94.8	94.8
Avg. Weekly Hours in Mfg.	39.4	39.8	40.2	39.7	39.9	40.1	40.2	40.2
Rate of Price Inflation	4.2	4.3	4.6	1.3	5.0	4.7	5.0	4.7
Relative to U.S. CPI**	94.9	95.8	95.9	95.6	95.6	95.7	95.8	95.9
Personal Income (mil$)	68913	73322	79070	72054	73965	75552	77085	78395
% Change	7.3	6.4	7.8	1.9	11.0	8.9	8.4	7.0
Disposable Income (mil$)	57420	61652	66729	60302	62439	63824	65234	66205
% Change	8.0	7.4	8.2	1.8	14.9	9.2	9.1	6.1
Real Per Cap. D.I. Index**	105.8	108.6	111.8	107.2	109.5	110.5	111.4	111.7
Relative to U.S.**	105.3	105.1	104.6	104.5	105.2	105.2	105.0	104.8
Rel. Business Cost Index**	95.4	95.9	96.1	95.8	95.9	96.0	96.0	96.1
Manufacturing**	94.9	95.6	95.7	95.5	95.6	95.6	95.7	95.7
Non-Manufacturing**	95.7	96.0	96.2	96.0	96.0	96.1	96.2	96.2

*Thousands of people.
**Indexes equal 100 in calendar 1973.

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Western Massachusetts: Economic Development

Gordon N. Oakes, Jr., President
Monarch Capital Corporation
Chairman, Westmass Area Development Corporation

Over the last decade economic development in Western Massachusetts has attained national recognition. Throughout the four western counties, projects involving the rebuilding of downtowns, construction of interstate highways, the development of industrial parks, the expansion of Westover Air Force Base, and the creation of informally arranged mortgage pools for development activities have gained the attention of the public and private sectors.

Much has happened, but where do we go from here? For the balance of the eighties and beyond, the western part of the Commonwealth can look forward to diverse and sustained economic growth. Geographically, that growth will occur primarily in the Connecticut River Valley area or, in some cases, outside of the Valley in growth pockets.

Poised for Growth

Economic growth is and will occur as part of a natural dynamic of the existing economic marketplace. As an example, the Springfield/Chicopee/Holyoke Standard Metropolitan Statistical Area is the ninth fastest growing retail market in the United States and will continue to grow as the result of increased per capita disposable income and the establishment of places to spend that income

The western region is the *next logical growth area* in Massachusetts. Large scale economic development tends to occur for labor market reasons in 30 and 50 mile jumps. These jumps are attributable also to the development of interstate highway systems. Local expansions tend to take place within the 30 mile area. When a facility locates a new manufacturing plant headquarters or distribution facility outside of its local area, it is usually beyond the 50 mile zone. Since the Boston, Hartford and Worcester areas are predominantly built up, certain areas within the western four counties will be the next logical geographical growth sites. The western four counties will experience an influx from both the eastern part of Massachusetts and the northward growth of the Connecticut market area.

The western counties are *rich in resources* that feed the growth cycle; important are the transportation network of rail, highway and air, capital markets, labor supply, and dynamic commercial interactions with other areas (over 1/3 of the U.S. market can be reached within an eight hour drive and 27% of the U.S. population resides within a 200 mile radius of the area).

Equally important, especially in today's service sector economy, are attributes more commonly known as the *quality of life*. Western Massachusetts has an excellent absolute, and more importantly, relative quality of life. Some of the more impressive contributing factors include the educational, health and cultural opportunities throughout the area. In Hampden, Hampshire, Franklin and Berkshire Counties, there are over 70,000 students and 7,600 faculty in the major institutions of higher education. The BayState Medical Center in Springfield has some 1,000 beds, 623 affiliated physicians, and also serves as a teaching hospital.

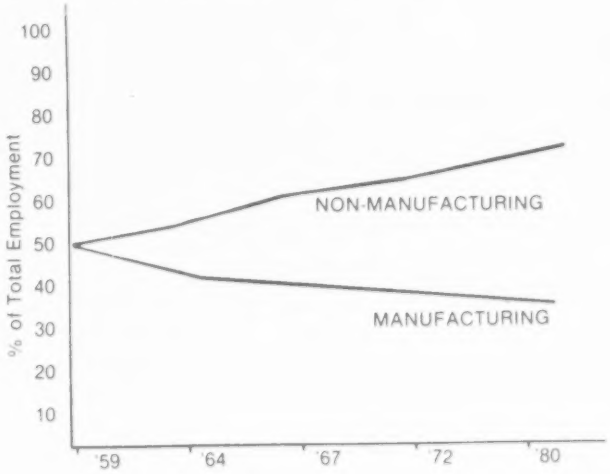
For *cultural opportunities*, there is a potpourri ranging from Tanglewood, the summer home of the Boston Symphony, to local resident symphonies, theatres, the internationally known Jacob's Pillow Dance Festival, a wealth of museums, the beauty of the landscape, and national historic landmarks such as Old Sturbridge Village and historic Deerfield. Recreation and entertainment facilities include such attractions as Riverside Park in Agawam, ski areas in the Berkshires, the Eastern States Exposition, and varied collegiate and professional sporting events. Equally important is the region's proximity to other cultural attractions including Cape Cod, Mystic Seaport, New York City, Boston, Hartford, and ocean beaches in Rhode Island. In short, if we don't have it here, we're within a three hour drive of some of the best recreational attractions in the United States.

These attractions, coupled with the reasonable cost of housing in Western Massachusetts (approximately 30% less than in neighboring metropolitan areas), make the region a desirable place in which to grow and live. The combined attractive pull of these factors bears significant influence on how business and industry decide if and where they will expand.

Having economic, demographic, and natural resource advantages is all well and good, but as George Bernard Shaw said, "Promises without programs are platitudes." One of the most important features of this region is its positive *commitment of resources*, both from the *public* and *private* sectors, and the effective use of its intellectual and financial capacities in the selection and pursuit of development goals. The successes of the region and of its individual communities and projects have been determined largely by the efforts and capital invested in its growth. Those efforts involve such resources as the University of Massachusetts, development corporations, chambers of commerce, and large segments of the bodies politic and private. But all of the efforts to date, no matter how successful, have really served as the *staging for the growth that is about to occur.*

What kind of growth? It will occupy a broad spectrum with much of the manufacturing sector expanding moderately. There probably will be a substantial influx of high technology industries especially firms dealing communications and computers. But the biggest area of growth will probably occur in the nonmanufacturing sector. In the last decade nonmanufacturing has experienced the most dramatic growth throughout the United States and the region. In 1959, 50% of the work force in the western four counties was employed in manufacturing and 50% in nonmanufacturing. Today, 70% of the work force is in nonmanufacturing and only 30% in manufacturing.

Employment Manufacturing vs Non-Manufacturing as % of Total 1959-1980



Interestingly enough, a survey of the Fortune 1,000 companies throughout the United States indicated that the Northeast and Massachusetts in particular were targeted for very few manufacturing plant locations but were heavily targeted for distribution facilities and administrative and headquarters facilities. Although manufacturing has and will continue to be important to us, the growth of the nonmanufacturing sector will accelerate rapidly.

What We Have to Do

The area has two basic choices: first, to do nothing at all and to watch it happen, or second, to be in charge of its own destiny by planning for, supporting, and accelerating growth where it is desired. The region has chosen the second alternative. To begin, all participants in the region's economic development must delineate the current situation, prospective goals, and the necessary steps for achieving those goals.

This requires research and lots of it — research in identifying the types of businesses likely to stay and expand, as well as those that are likely to come into the region. Next, the region must determine what businesses it wants to attract and what resources will make for successful attraction. It must marshal appropriate resources that are al-

ready available, and create other necessary resources involving money, people, and infrastructure. Finally, the region must market itself, and this means more than just advertising.

The region's overall success requires that it view itself as a region and develop strategies to go forward as a region. That process is already underway through the Western Massachusetts Economic Development Conference led by the Westmass Area Development Corporation and the University of Massachusetts. The Conference is an ad hoc group comprising anyone who is interested in attending meetings and workshop sessions from any one of the four western counties. It meets several times a year to identify pertinent issues and to develop appropriate implementation strategies and work programs. Two important components of the regional effort are the University of Massachusetts, under the leadership of Chancellor Joe Duffey, along with his working group for economic development chaired by Dr. Miriam Williford, and the Westmass Area Development Corporation, which I have the privilege of chairing. Westmass is a regional, nonprofit development corporation providing the technical services and financing capabilities to put economic development projects "on the boards." The University provides the intellectual underpinnings to drive the process forward.

Although the picture looks promising due to market forces, natural attributes of the area, aggressive implementation strategies and programs, and an absolute commitment to seize opportunities, all of this is not occurring without calculated risks. To be sure, the region will lose opportunities and some money here and there, and will work harder on some things than it probably would otherwise deserve. But all who are involved have kept in mind that if you are never scared, embarrassed or hurt, it means you never took any chances.

Is this the viewpoint that of a Pollyanna? Probably not. William James, the American philosopher, said, "You are or will become as you perceive yourself to be." If the region thinks and knows that it is going to grow, then it will act accordingly and that growth will come. The regional programs and initiatives that are taking place now and the self-reliance and determination coming from within will again cause this part of the state to become the national model for others to follow.

Some people will believe anything as long as it is whispered to them. Right now, the people who are involved in economic and regional development are out there across the United States whispering about Western Massachusetts.

Richard Fein Named School of Management Placement Director

The School of Management is pleased to announce the appointment of Richard Fein as its Director of Placement. Mr. Fein's extensive experience with placement affairs includes, most recently, his position as Director of Corporate Placement at Baruch College in New York City. He holds an M.B.A. degree from Baruch and a bachelor's degree from the University of Pennsylvania. He welcomes inquiries from the business community about recruiting and distribution of company information, and about the School's students, alumni, and programs. For further information about the School of Management's placement services, contact Mr. Fein at:
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Plant Closing Legislation in Massachusetts: Prospects and Problems

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Massachusetts Business and Economic Report

In Massachusetts the issue of plant closing legislation is currently receiving widespread attention. The principal forum of debate is the Governor's Commission on the Future of Mature Industries, comprising 31 representatives from business, labor, higher education, and state and local government. By the beginning of 1984 the Commission is expected to make recommenda-

tions for legislation that could require the state to identify and help rescue failing businesses as well as place constraints upon firms that close their doors. Under this approach the state would establish an "early warning system" to target troubled firms for financial assistance and managerial counseling. Assistance would be administered behind the scenes to avoid damaging publicity that might injure an already weakened business. Only when a firm's decision to close became irrevocable would it be required to assume such responsibilities as issuing severance pay and advanced notification of closure to employees and the community.

Since plant closing legislation became a conspicuous issue during the mid-1970s, its proponents have achieved few victories. Maine is currently the only state with an enforceable plant closing law. The Maine law applies to industrial or commercial facilities that have employed 100 or more persons during the preceeding twelve months. It requires firms that relocate 100 or more miles from their original site to provide severance pay to employees of three or more years. The severance pay must equal one week's pay for each year of employment. Maine also requires that any firm planning to relocate outside the state must notify in writing its employees and the municipality where it is located not less than 60 days before the move. The penalty for violating this provision carries a ceiling of $500.

Proponents of plant closing legislation have traditionally based their arguments on what they consider to be matters of equity: protecting employees and communities from the economic and social consequences that arise when a large employer suddenly closes its doors. Opponents counter that states with plant closing laws are economically less attractive and less competitive than states without such laws. To prove effective, the novel "early warning system" under consideration would require adequate resources and an equitable distribution of assistance. Moreover, many opponents consider the very practice of assisting faltering businesses to be economically inefficient and unhealthy. In any event, the issues accompanying plant closing legislation should provide for a season of lively debate.

The October 1983 Massachusetts Economic Policy Analysis (MEPA) Economic and Tax Revenue Forecasts

Roy Williams and Margaret Larson *

The path to economic recovery in Massachusetts still appears at least as rocky as it did three months ago. Recovery in the nation already shows signs of slowing down as it matures and moves into the basic investment goods sectors. Industrial employment data for the state which were available at the time this forecast was made in October show the majority of sectors to be employing fewer people than earlier expected, even after discounting the effects of the nationwide strike of telephone workers. Our forecast for the state is therefore very little changed overall, with somewhat healthier predictions for a few durable goods sectors more than offset by weaker growth paths for several nondurable and nonmanufacturing sectors. Particularly disappointing are the recent setbacks and slower forecast growth in the service sector, on which so much of the state's new job creation must depend for the long term.

The latest evidence from the Current Population Survey sample of 1500 households in the state is no longer so discrepant from industrial data. The reported unemployment rates for September and October are more than a full point above the extraordinarily low July and August figures. We still assume that Massachusetts' participation rate will remain around 3 percentage points higher than the U.S. participation rate, so that our unemployment rate will remain about 2.5 percentage points lower than the U.S. rate.

Despite substantial growth in the near term in most sectors, total manufacturing employment will not regain its peak level, but will continue its long-term decline in share of U.S. employment, with the level itself declining again by the late 1980's. The exceptions to the general picture of declining shares are limited to the period of the current re-

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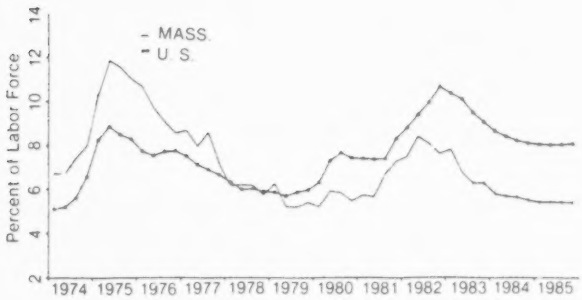
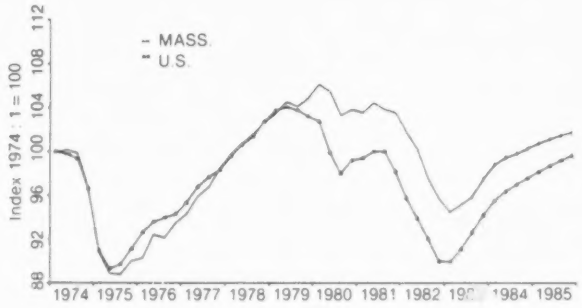
covery and to a high-tech sectors, in which Massachusetts is expected to retain its relatively high share. The state has its highest percentage of U.S. employment in the fast-growing office and computer machinery industry (SIC 357), with over 10% of U.S. employment. There are currently nearly 55,000 people employed in this sector, with over 5,000 new jobs expected to be created in Massachusetts over the next two years. Transportation Equipment (SIC 37) has increased in share with help from defense contracts and is forecast to hold that share. However Instruments (SIC 38) has declined in share and is not expected to regain its 1981 peak share. While Finance, Insurance & Real Estate, and the service sectors are expected to create many new jobs in Massachusetts, the percentage growth of these industries is expected to be roughly parallel to corresponding U.S. growth rates, so that the shares of U.S. activity in these sectors will remain relatively stable.

Unemployment Rate

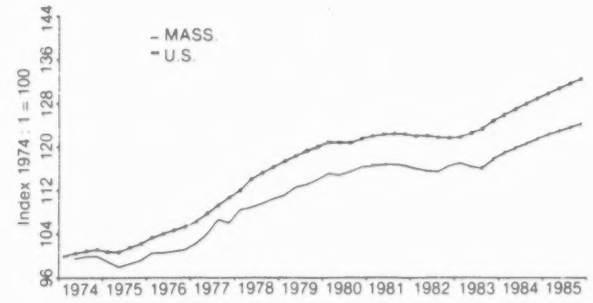


Manufacturing Employment



Real Per Capita Disposable Income

Nonmanufacturing Employment



October Control Forecast

Summary Report
Massachusetts Economic Policy Analysis Model
(Units as Indicated)

	1982	1983	1984	1983:4	1984:1	1984:2	1984:3	1984:4
Employment—Total Nonag.*	2622	2618	2700	2644	2673	2692	2708	2726
% Change	-1.7	-.2	3.1	6.1	4.5	2.8	2.4	2.7
Manufacturing*	637	617	642	628	637	641	643	646
% Change	-4.9	-3.1	4.0	6.8	5.5	2.7	1.4	1.8
Non-Manufacturing*	1985	2000	2058	2016	2037	2051	2065	2080
% Change	-.7	.8	2.9	5.9	4.2	2.8	2.7	3.0
Unemployment Rate	7.9	6.8	5.7	6.3	5.8	5.7	5.6	5.5
Employment Rate Index**	103.0	102.0	104.4	102.8	103.7	104.2	104.7	105.2
% Change	-2.5	-.9	2.4	5.5	3.7	2.1	1.7	2.0
Relative to U.S. Index**	103.1	102.9	102.6	102.5	102.7	102.6	102.6	102.7
Rate of Wage Change	7.8	4.6	4.4	3.4	4.9	5.3	5.1	5.6
Wage Index Rel. to U.S.**	93.5	93.6	93.7	93.6	93.7	93.7	93.7	93.8
Avg. Weekly Hours in Mfg.	39.4	39.9	40.4	40.3	40.4	40.4	40.3	40.3
Rate of Price Inflation	4.2	4.2	4.9	4.9	5.7	5.5	5.1	5.1
Relative to U.S. CPI**	94.9	95.8	95.6	95.5	95.5	95.6	95.6	95.6
Personal Income (mil$)	68913	72398	78397	74308	76219	77641	79078	80648
% Change	7.3	5.1	8.3	10.6	10.7	7.7	7.6	8.2
Disposable Income (mil$)	57458	61059	66295	62907	64545	65707	66838	68089
% Change	8.2	6.3	8.6	9.8	10.8	7.4	7.1	7.7
Real Per Cap. D.I. Index**	105.9	107.7	110.8	109.2	110.3	110.6	111.0	111.5
Relative to U.S.**	105.2	103.8	103.4	103.5	103.5	103.4	103.3	103.3
Rel. Business Cost Index**	95.3	95.1	95.0	95.0	95.0	95.0	95.0	95.0
Manufacturing**	94.7	95.0	95.0	95.0	95.0	95.0	95.0	95.0
Non-Manufacturing**	95.5	95.1	95.0	95.0	95.0	95.0	95.0	95.1

*Thousands of people.
**Indexes equal 100 in calendar 1973.

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